Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of)	
)	
Petition of USTelecom For Forbearance)	WC Docket No. 12-61
Under 47 U.S.C. § 160(c) From Enforcement)	
Of Certain Legacy Telecommunications)	
Regulations)	

COMMENTS OF CINCINNATI BELL TELEPHONE COMPANY LLC IN SUPPORT OF THE PETITION FOR FORBEARANCE OF THE UNITED STATES TELECOM ASSOCIATION

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SUMMARY

On February 16, 2012, the United States Telecom Association ("USTelecom") filed a Petition for Forbearance of a number of legacy telecommunications regulations, on behalf of all incumbent local exchange carriers ("ILECs") with respect to some rules, and on behalf of price-cap LECs with respect to others. On March 8, 2012, the Commission established a pleading cycle and invited interested persons to file comments on the Petition on or before April 9, 2012. The Commission grouped the forbearance requests into 17 categories and requested that parties filing comments identify the categories upon which they are commenting.

As a mid-size price-cap carrier, Cincinnati Bell Telephone Company LLC ("CBT") fully supports USTelecom's petition. USTelecom's Petition covers a wide variety of regulatory subjects and CBT supports the Petition with respect to all of them, however, CBT will only comment specifically on a subset of the topics. These comments will only address Categories 1, 3, 4, 5, 7, 12 and 14. The failure to comment on any other particular forbearance request should not be interpreted as a lack of support for that request. CBT merely seeks to minimize the volume of comments that the Commission must review and consider.

Forbearance is required under § 10 of the Telecommunications Act of 1996 when: (1) enforcement of a regulation is not necessary to ensure that rates or practices are just, reasonable, and nondiscriminatory; (2) enforcement is not necessary to protect consumers; and (3) forbearance is consistent with the public interest.² Because USTelecom has shown that these three requirements of § 10 have been met with respect to each regulation included in its Petition, the Commission must grant forbearance from those rules.

¹ *Public Notice*, DA 12-352, WC Docket No. 12-61 (Mar. 8, 2012). ² 47 U.S.C. § 160(a).

As USTelecom has discussed and documented thoroughly in its competitive analysis, the communications industry has changed dramatically since the implementation of the legacy telecommunications regulations. The Commission's rules were largely geared to the PSTN and rate of return regulation and have become increasingly irrelevant. Rate of return regulations have no application to price cap carriers. The Commission's recent comprehensive reform of the universal service and intercarrier compensation systems has also dramatically altered the access charge and universal service support regimes.

The rules addressed in USTelecom's Petition have never applied to anyone but ILECs and now, because of forbearance granted to the largest ILECs, for the most part only apply to small and mid-sized ILECs. Their main competitors, cable, wireless and VoIP providers, have always escaped these regulations. The Commission should now provide the same relief to the remaining ILECs.

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I. **INTRODUCTION**

The United States Telecom Association ("USTelecom") has petitioned the Commission pursuant to § 10 of the Telecommunications Act of 1996 ("1996 Act"), and §§ 1.53 and 1.54 of the Commission's rules, ³ for forbearance from a number of legacy regulations. Cincinnati Bell Telephone Company LLC ("CBT") is a mid-sized incumbent local exchange carrier ("ILEC") and fully supports the USTelecom Petition.⁴

The legacy regulations that are the subject of USTelecom's Petition impair the ability of small and mid-size ILECs to compete. They are based on old technologies and business models. They were largely used for rate-of-return regulation and predate the 1996 Act as well as intermodal competition. These rules have no current regulatory purpose with respect to price cap regulation. The Commission has recognized this by granting BOCs forbearance from many of these regulations.

³ 47 U.S.C. § 160(c); 47 C.F.R. §§ 1.53-1.54.

⁴ USTelecom seeks forbearance in some cases for all ILECs, and in other cases only for price cap ILECs. As a price cap carrier, CBT would qualify for all of the requested forbearance relief.

Consumers now have access to services from a variety of competitive sources, including cable, wireless and Voice over Internet Protocol ("VoIP") providers. USTelecom has established that switched voice service provided by ILECs continues to decline in favor of newer technologies. CBT's experience is consistent with the industry as a whole. CBT peaked at more than a million access lines in the late 1990s. Over the last four years alone, its number of telephone access lines declined from 834,300 in 2007 to 621,300 in 2011, a loss of over 25%. This loss is due to a variety of competitive influences. More and more consumers are "cutting the cord" and using only wireless service; cable operators offer the "triple play" of video, voice and data and now serve a large part of both the residential voice and broadband markets; and over-the-top VoIP providers offer attractive unlimited local and long distance plans that are available to any consumer with broadband access. These competitive alternatives are not burdened by legacy telecommunications regulations that impose costs and burdens on only the ILECs. Such asymmetrical regulation should not be allowed to continue to the detriment of competition and consumers.

II. <u>LEGAL STANDARD</u>

The 1996 Act directs the Commission to forbear from enforcing regulations when the requirements of § 10 are satisfied. Paraphrasing, the three criteria of § 10 are that: (1) enforcement of the regulation is not necessary to ensure that the carrier's charges or practices are just, reasonable, and nondiscriminatory; (2) enforcement of the regulation is not necessary to protect consumers; and (3) forbearance is consistent with the public interest. USTelecom has demonstrated these statutory requirements with respect to all of the rules that are the subject of its Petition.

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⁵ 47 U.S.C. § 160(a).

USTelecom's Petition satisfies the requirement that it "specify how each of the statutory criteria is met with regard to each statutory provision or rule, or requirement from which forbearance is sought." USTelecom has provided a thorough analysis of current market conditions, which show authoritatively why the three prongs of § 10 are satisfied with respect to each regulation that is the subject of its Petition. Because USTelecom has demonstrated the criteria for forbearance exist, the Commission must grant forbearance.

A. Enforcement of the Regulations is Not Necessary to Ensure that Charges and Practices Are Just and Reasonable and Not Unjustly or Unreasonably Discriminatory.

The first prong of the forbearance standard requires the Commission to determine if enforcement of the regulation is necessary to ensure that the charges, practices, classifications, or regulations by, for, or in connection with the carrier or service are just and reasonable and are not unjustly or unreasonably discriminatory. Many of the regulations addressed by USTelecom are only relevant to rate-of-return regulation. It is a given that rate-of-return regulations are not necessary to assure that a price cap carrier's rates are just, reasonable, and nondiscriminatory. Rates of price cap carriers are not determined by regulated costs and rate bases, but by market forces and the price cap rules. The Commission has already recognized this by granting forbearance from various accounting and reporting requirements to the BOCs. The same reasoning must now be applied to all other price cap ILECs.

The Commission's Intercarrier Compensation Reform Order⁸ has further severed any link between regulated costs and rates of price cap companies by freezing and capping interstate and intrastate switched access rates and ordering their gradual decrease to bill and keep. Regulated

⁶ 47 C.F.R. § 1.54(b)(1).

⁷ 47 U.S.C. § 160(a)(1).

⁸ Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking, WC Docket No. 10-90, FCC 11-161, ¶ 655 (rel. Nov. 18, 2011) ("Intercarrier Compensation Reform Order").

costs no longer control rates under price cap regulation, and these rates will automatically decrease over time regardless of network investments or operating costs. There is no justification for the continuance of rules designed to monitor regulated costs for price cap carriers.

Competition from a variety of sources has made legacy regulations unnecessary to ensure just, reasonable and nondiscriminatory rates. Today's market conditions are very different from the monopoly conditions in place at the time of the legacy regulations were implemented. Cable and wireless service continue to grow and to replace wireline service. Continuing to apply legacy regulations that currently serve no valid regulatory purpose distorts competition and harms the public interest by imposing unnecessary costs and burdens on a limited set of competitors.

B. <u>Enforcement of the Legacy Telecommunications Regulations is Not Necessary for the Protection of Consumers.</u>

The second prong of § 10 is that enforcement of the regulation is not necessary for consumer protection. 47 U.S.C. § 160(a)(2). For many of the same reasons these regulations are not necessary to ensure just and reasonable rates, they are not necessary to protect consumers. To the contrary, where there is no current need for a particular regulation, continued application of it imposes unnecessary costs that harm consumers. Consumers are harmed by anything that impairs or impedes the deployment of new and innovative services.

Forbearance from enforcing unnecessary regulations would not eliminate consumer protection. Carriers will continue to be subject to many other federal and state consumer protection measures. And even with elimination of legacy regulatory accounting rules, carriers will remain subject to Generally Accepted Accounting Principles ("GAAP") for accounting and financial reporting purposes. Public companies will continue to file reports with the SEC and to

be subject to the strictures of Sarbanes-Oxley. These independent accounting and auditing requirements supplant any need for the legacy accounting regulations addressed in USTelecom's Petition.

All competitors except ILECs, including competing cable, wireless and VoIP providers, are exempt from the Commission's rules addressed in USTelecom's Petition. The Commission has granted forbearance to the largest ILECs for many of these rules. Because these regulations do not apply to the vast majority of the competitive market, it is apparent that they are not necessary to protect consumers and only impose burdens on those carriers who remain subject to them.

C. Forbearance is in the Public Interest.

The third prong of § 10's forbearance standard is whether forbearance would be consistent with the public interest. This prong considers, among other things, the impact forbearance would have on market conditions. If the Commission determines that forbearance will promote competition, that is sufficient in itself to find that forbearance is in the public interest.⁹

Forbearance would eliminate regulations that impact only one subset of competitors and that impose unnecessary costs and impair efficiency. The public interest would be served by eliminating any impediments caused by legacy regulations. Costs saved by the elimination of these impediments can be passed on to consumers through innovation in networks and services and/or lowering of prices. The Commission should ensure that its rules and policies promote a healthy climate for private investment and job creation. The Petition provides the Commission with a very tangible opportunity to pursue that effort.

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⁹ 47 U.S.C. § 160(b).

III. THE LEGACY REGULATIONS ARE UNNECESSARY AND MEET THE REQUIREMENTS FOR FORBEARANCE

USTelecom has satisfied all three prongs of § 10 with respect to each of the regulatory requirements for which it seeks forbearance. USTelecom has also satisfied the requirements of Commission Rule § 1.54(b)(1) by explaining how the statutory requirements have been met for each regulation for which forbearance is sought. CBT supports all of USTelecom's forbearance requests. Rather than discuss each and every rule addressed by the USTelecom petition, CBT will add additional comments on only a few areas.

A. Category 1: Equal Access Scripting Requirement.

The Commission should grant forbearance from the Equal Access Scripting ("EAS") requirements to all ILECs that remain subject to this requirement. The Commission has already granted forbearance from these requirements to the BOCs and their independent ILEC affiliates. There is no justification for the continued application of the EAS requirement to other ILECs.

The EAS rule requires ILECs to inform customers who order new local service that they can subscribe to long distance service from a different carrier and to read a list of long distance carriers upon request. This rule was intended to promote competition in the stand-alone long distance market when competition was new. EAS is not necessary in today's long distance market where consumers now have numerous options. For example, cable and wireless providers offer bundles that include "any distance" calling service. Stand-alone long distance is becoming a "fringe market." The Commission itself has previously found that EAS may distort

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¹⁰ Petition of AT&T Inc. for Forbearance Under 47 U.S.C. § 106(c) with Regard to Certain Dominant Carrier Regulations for In-Region Interexchange Service, Report and Order and Memorandum Opinion and Order, 22 FCC Rcd 16440, ¶ 117 (Equal Access Scripting Forbearance Order).

long distance competition by focusing on only one type of competitive alternative and hindering consumer awareness of other alternatives. 11

The Commission has relieved the largest ILECs from the EAS requirement and has never required non-ILEC competitors to comply. USTelecom filed a waiver petition in 2009 requesting relief from the EAS requirements for all small and mid-sized ILECs. 12 That petition has broad support and little opposition. CBT followed with its own Petition for Waiver of the EAS rules on September 11, 2009. Only a few parties responded to the Commission's invitation to comment on CBT's Petition, and all commenters supported CBT's waiver request. 14 No one has opposed CBT's petition, which remains pending.

The application of EAS to only small and mid-sized independent ILECs but not their competitors distorts competition. The Commission should grant forbearance to all ILECs that remain subject to the EAS requirement. The changes in market conditions are the same for those carriers and they deserve the same regulatory relief as everyone else.

B. **Category 3: Cost Assignment Rules**

USTelecom seeks forbearance for all price cap carriers who have not already been granted forbearance from the Commission's Cost Assignment Rules. 15 These rules govern the assignment of costs and revenues by type, service (regulated or non-regulated) and jurisdiction

Petition of the United States Telecom Association for Waiver from Application of the Equal Access Scripting Requirement, WC Docket No. 08-225 (filed Nov. 10, 2008).

¹³ In the Matter of Petition of Cincinnati Bell Telephone Company LLC for Waiver From Application of the Equal Access Scripting Requirement, WC Docket No. 09-206.

¹⁴ Comments of National Telecommunications Cooperative Association; Comments of Independent Telephone & Telecommunications Alliance; Comments of CenturyLink, Iowa Telecom and Windstream.

¹⁵ As USTA has documented, AT&T, BellSouth, Owest and Verizon have all been granted conditional relief from these rules.

(intrastate or interstate), among other things. They also include the Commission's affiliate transaction rules.

The Cost Assignment Rules were developed for purposes of rate-of-return regulation and are irelevant to price cap carriers. The Commission has granted forbearance from these rules to BOCs and invited similarly situated LECs to seek comparable relief. The reasons for granting forbearance to BOCs apply equally to all price cap carriers. Under price caps, the Cost Assignment Rules are irrelevant to whether rates are just and reasonable because costs are not used to determine rates.

The Cost Assignment Rules serve no current, federal need for price cap carriers. Indeed, many states have similarly moved away from rate of return and towards price regulation. At the state level, CBT has elected alternative regulation plans that set price caps for basic local exchange service and leave the rates for most other services subject only to competitive forces. CBT is not subject to any rate of return regulation. The Cost Assignment Rules serve no legitimate purpose and only impose unnecessary costs. The Cost Assignment Rules now only apply to small and mid-size independent ILECs (not large LECs, CLECs, cable, VoIP or wireless providers). This selective application of the rules distorts competition. In granting forbearance to BOCs, the Commission found that forbearance was in the public interest because it would result in substantial cost savings, permit carriers to compete more effectively by freeing them from unnecessary regulations that did not apply to their competitors, and enhance competition. 18

¹⁶ Petition of AT&T Inc. for Forbearance under 47 U.S.C. § 160 From Enforcement of Certain of the Commission's Cost Assignment Rules, Memorandum Opinion and Order, 23 FCC Rcd 7302, at 7307, ¶ 16 (2008) ("AT&T Cost Assignment Forbearance Order:").

¹⁷ See Ohio Revised Code § 4927.12; Kentucky Revised Statutes § 278.543.

¹⁸ AT&T Cost Assignment Forbearance Order, ¶ 41-44.

The same benefits would result from the Commission granting forbearance to all price cap carriers.

C. Category 4: Part 32 Uniform System of Accounts (47 U.S.C. § 220(a)(2), 47 C.F.R. §§ 32.1–32.9000).

The USTelecom Petition seeks forbearance from the Part 32 Uniform System of Accounts. Part 32 imposes accounting requirements that vary from GAAP. Because public companies must also report their financial information according to GAAP, ILECs subject to Part 32 are forced to keep two separate sets of accounting records, one for regulatory purposes and one for public financial reporting purposes. Competitors only have to keep one set of records using GAAP.

Part 32 accounts historically were used to set interstate access rates and to calculate Universal Service high cost support. Like the Cost Assignment Rules discussed above, Part 32 does not affect the rates charged by price cap carriers because price cap regulation severed the link between regulated costs and prices. Part 32 accounting data is no longer necessary for jurisdictional separations purposes under Part 36. Separations factors for price cap carriers have been frozen since 2001.¹⁹ The Commission's Intercarrier Compensation Reform Order further divorced access rates from Part 32 data. Intrastate access rates must be decreased to interstate access rate levels by July 2013, then both sets of rates will transition over time to bill and keep. By equalizing intrastate and interstate rates, separations are irrelevant. Costs are also irrelevant to this process. The Intercarrier Compensation Reform Order further modifies high cost universal service support by relying upon market forces, including competitive bidding, instead of cost data, further negating any need for Part 32 data.²⁰

¹⁹ *Jurisdictional Separations and Referral to the Federal-State Joint Board*, Report and Order, 26 FCC Rcd. 7133 (2011) (extending separations freeze until June 30, 2012).

²⁰ See, e.g., Intercarrier Compensation Reform Order, ¶¶ 20, 34.

Part 32 may still serve a purpose for rate-of-return carriers, but is a historic relic for price cap carriers. Part 32 imposes unnecessary costs on price cap carriers by necessitating two separate accounting systems to track the numerous differences between Part 32 and GAAP accounting, which continue to grow as GAAP develops. Maintaining two sets of books adds unnecessary costs and procedures to the accounting functions of price cap carriers. CBT must maintain several legacy accounting systems solely to comply with the Part 32, cost allocation and property records rules. CBT estimates that over 13% of its annual accounting budget is spent on personnel and systems devoted to these purposes. If CBT only had to follow GAAP accounting, these costs could be eliminated.

Because only a handful of companies remain subject to these unique regulations, the ability to maintain outdated accounting systems and to reconcile their results with GAAP accounting grows more difficult and expensive every year. There are no commercially available replacement systems, such as the off the shelf accounting packages that competitors who are not subject to these rules can use. Forbearance from Part 32 would allow price cap carriers to simplify their accounting systems, avoid unnecessary costs of complying with arcane regulatory accounting rules, and place them on a more equal footing with their competitors who are not subject to these rules.

D. Category 5: Property Record Rules (47 C.F.R. §§ 32.2000(e), (f)).

The Property Record Rules require ILECs to keep detailed property records and numerous supplemental records such as invoices, work orders, and engineering drawings. These records are part of the total accounting system and must be maintained for the life of the property.

The property record rules are yet another set of rules that were developed for rate-of-return regulation and serve no purpose for price cap carriers. With rates no longer tied to costs, there is no reason to require price cap carriers to maintain such detailed property records.

Consumers are not protected by compelling carriers to keep these property records. The rules simply impose unnecessary costs and burdens on the subset of carriers that are subject to them, which distorts competition. Non-ILECs are able to operate more efficiently using standard packaged accounting software systems, which ILECs cannot use if they must still maintain the detailed information required by the Commission's property record rules.

E. Category 7: ARMIS Report 43-01.

The Commission should forbear from requiring mid-sized ILECs to file ARMIS Report 43-01. The Commission has granted conditional forbearance to all carriers from various ARMIS Reports and has relieved BOCs from filing other ARMIS Reports, except to file pole attachment data previously filed on ARMIS Report 43-01. ARMIS reports are not required from companies with under \$142 million in revenue, leaving mid-size ILECs as the only carriers that still must file a full Report 43-01. Mid-size ILECs should receive forbearance from filing ARMIS Report 43-01 for the same reasons that the Commission granted forbearance to the BOCs.

ARMIS reports were originally established when rate-of-return was the predominant regulatory mechanism and these reports were used in determining revenue requirements and rates of return. For price cap ILECs, except for pole attachments which remain rate regulated, ARMIS Report 43-01 is unnecessary to ensure that rates are just, reasonable, and nondiscriminatory. Requiring only mid-size ILECs to file a full ARMIS Report 43-01 serves no valid regulatory purpose and is not in the public interest. The Commission should grant mid-size LECs the same relief from ARMIS reporting as the BOCs.

F. Category 12: Structural Separation Requirements for Independent ILECs (47 C.F.R. § 64.1903).

The Commission should forbear from applying the structural separation requirements and dominant carrier regulation for integrated long distance services offered by independent ILECs. Section 64.1903 requires independent ILECs to provide certain services only through a separate affiliate. The affiliate must maintain separate accounting records, purchase services from the ILEC through tariffs or at generally available contract rates, and cannot jointly own transmission or switching facilities with the ILEC. This rule was designed to prevent an ILEC from using its control of local access facilities to subsidize long distance service or discriminate against other long distance carriers. The long distance market has changed substantially since Rule 64.1903 was adopted and the rule is no longer justified.

The structural separation rule was based on concerns that ILECs could use their control over local access facilities to obtain unfair advantages in the long distance market. However, there are now no dominant IXCs and ILECs face substantial competition for long distance service. Many of the competitive options do not rely upon local exchange access, so an ILEC cannot use control of the local exchange network to affect long distance service. Cable, VoIP and wireless providers can completely bypass the local network to provide long distance service. The rules prevent ILECs from taking advantage of the economies of scope and scale that could result from integrated operations. The elimination of these requirements would eliminate unnecessary costs for independent ILECs and promote competition and innovation, so forbearance is in the public interest.

The Commission has conditionally allowed BOCs and their independent ILEC affiliates to provide integrated long distance services without being subject to dominant carrier regulation. There is no continuing justification for enforcing the rule against small and mid-size LECs.

G. Category 14: "Cash Working Capital Allowance" requirement (47 C.F.R.

§ 65.820(d)).

The Commission should forbear from application of the Cash Working Capital

Allowance requirement to all price cap carriers. Section 65.820(d) requires carriers to calculate a

cash working capital allowance by performing a lead-lag study or following an FCC-prescribed

formula. The calculation is detailed and time consuming, but not useful for ratemaking purposes

because cash working capital is not a meaningful calculation for price cap carriers. There is no

justification for the continued burden of this requirement on price cap carriers. The rule is yet

another obligation placed on only a subset of competitors, providing them with competitive

disadvantages, so forbearance is required.

IV. **CONCLUSION**

For the foregoing reasons, CBT urges the Commission to grant USTelecom's Petition

and to forbear from application of the cited legacy telecommunications regulations.

Respectfully submitted,

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